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INDUSTRIAL PRODUCTION FIGURES FOR THE
FIRST TEN MONTHS OF 1985

<u>Product</u>	<u>Oct. 1985</u>	<u>Jan- Oct. 1985</u>	<u>% Jan.- Oct 1985 over Jan. -Oct 84</u>
Electricity (bil.kw.hrs)	132	1257	104
Petroleum (inc. gas condensate) (mil.tons)	50.8	495	97
Natural Gas (bil.cu.mtrs)	56.4	529	110
Coal(mil.tons)	61.4	604	102
Steel (mil.tons)	13.4	128	99.3
Fertilizer (mil.tons)	2.8	27.3	107
Metal-cutting tools (mil. rubles)	226	2206	112
Robots (1000s)	1.4	12.4	104
Computer Technology (bil. rubles)	0.4	3.4	111
Tractors (mils.)	4.5	43.9	104
Paper (mil. tons)	0.5	4.9	102
Cement (mil. tons)	11.3	109	99.9
Meat (mil. tons)	1.0	8.2	102

Watches (mils.)	5.8	56.3	100.4
Radios (mils.)	0.8	7.2	93
Televisions (mils.)	0.8	7.7	104
Automobiles (mils.)	0.1	1.1	100

PRODUCTION RESULTS FOR THE
FIRST TEN MONTHS OF 1985

It's beginning to sound like a broken record. Nonetheless, Gorbachev's program of discipline and hard work does seem to be working. The most interesting index to watch each month is in oil production. As the table indicates, production for the first ten months of 1985 is 97% of what it had been for the first ten months of 1984. That is an improvement over what was reported in our last several newsletters when the figure was 96%. More importantly, the comparison on a month by month basis for October 1985 shows that production was down by only 1.4% which rounded off comes to 1%. That is a continuing improvement from the figure for June which showed a drop of 5%. There seems to be little doubt that total production for all of 1985 in the petroleum industry will be below 600 million tons or 12 million barrels a day. But it will not be by as much of a drop as it looked like earlier. Indeed there is every reason to believe that Gorbachev by force of will has shaken up the petroleum industry so that within the next several months, production should be back up to where it had been the year previously and that the Soviet Union will then begin to show a slight increase in production. Again, the prophets of doom in the petroleum industry look like they may have been premature and they will have to wait before Soviet petroleum production does drop on a regular basis.

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Along the same lines, coal production on a month by month basis for October is up 3%. Again the marginal improvement is better than the average for the entire ten month period. The same thing can be said about steel production which is up in October by 3% compared to a slight drop for production on a ten month basis. All of this seems to reflect the shake-up in economic leadership and emphasis on discipline that Gorbachev has been instituting.

ARDEN HOUSE SCHEDULE
NEAR COMPLETION

As announced earlier, the program for the tenth annual Harvard-Columbia Arden House Conference on U.S.--Soviet Affairs is near completion. We have already received an acceptance from Ambassador Arthur Hartman in Moscow to be the keynote speaker on March 21st. Deputy Assistant Secretary of State Mark Palmer and National Security Council Advisor Jack Matlock have also indicated that they also expect to participate. The congressional panel will include Senator Paul Simon. At least two other senators have indicated tentatively that they may be able to attend.

After the recent meetings in Geneva, it should be particularly interesting to hear what took place from those who were involved in the discussions. So, please mark your calendars on March 21st to the 23rd for Arden House. We will be sending out the first draft of the program and an application form in early January.

LIVESTOCK HERDS (Millions)

	11/1/84	11/1/85	10/1/85 as % of 10/1/84	11/1/85 as % of 11/1/84
Cattle	95.1	94.6	99.6	99.4
Cows	29.6	29.3	99.0	99.0
Hogs	61.5	59.8	96.8	97.2
Sheep & Goats	118.9	116.1	97.5	97.6
Chickens	748.3	764.3	102.9	102.1

The size of the livestock herds continued to be below what they were a year ago except for the chicken population. The decline in cattle herds seems to have accelerated a bit in November but in other types of livestock the drop did not seem to be quite as sharp.

CURRENCY FIGURES

Rubles Purchased Per 100	Nov 1984	Oct 1985	Nov 1985
Austrian shilling	4.01	4.22	4.23
U.K. pound	105.65	111.86	110.81
W. German mark	28.19	29.64	31.25
U.S. dollar	83.70	78.80	77.71
French franc	9.18	9.71	9.77
Swiss franc	34.30	36.18	36.31
Japanese yen	.347	.362	.382
Italian lira	.0454	.0439	.0441

According to the report released by Gosbank SSR, as of November 16, 1985 all of the currencies listed above varied only slightly from last month's figures. Understandably, the U.S. dollar and U.K. Pound decreased somewhat with dollars moving from 78.80 rubles purchased per 100 dollars to 77.71 and the pound from 111.86 to 110.81. Not a very significant change by any means however. Other currencies gained a very slight bit. Again, nothing significant worth noting.

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*Seasons
Greetings*

GORBACHEV CALLS FOR INTENSIVE GROWTH

By

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Since his elevation to General Secretary on March 11, Mikhail S. Gorbachev has been the subject of a cascade of western media commentary, but—as not always grasped—he has been conducting a veritable campaign on the lackluster performance of the Soviet economy. Clearly he is especially troubled by the faltering Soviet growth rate, lately just matching U.S. post oil-shock tempos. To increase that rate will be a cardinal concern of his new administration. That is evident from Gorbachev's numerous speeches, including three major ones in the Party Central Committee, and from the associated information drive now in progress.

With all the attention he is giving the economy, Gorbachev thus far has tended to be rather general on how the growth speed-up is to be accomplished. Further details doubtless will be supplied when a new five-year plan is unveiled at the Party Congress scheduled for next February. Gorbachev could easily be disappointed, though, by results of the course he is apparently bent on pursuing.

We begin to see why that might be when we consider that the decline in growth is not exactly a new development in the USSR. It has in fact been in progress ever since the fifties. That is apparent from official Soviet data on the so-called "net material product" (NMP) as well as CIA calculations of the GNP (Table 1).

As shown, there are two Soviet series rather than one, but the limited difference between them is unimportant here. Oddly, the decline in growth is more pronounced in the Soviet data than in those of the CIA. As well as being more reliable, however, the CIA calculations alone conform to accepted Western methodology. For example, the CIA data, as is well known, take into account diverse services that are omitted from NMP.

In trying to gauge prospects for the acceleration of growth under Gorbachev, it must also be considered that the causes of the slowdown have been rather complex. Thus, as still not generally understood, growth in the USSR early on was generated in a quite novel way: predominantly by the expansion of labor and capital inputs and only to a relatively limited extent by increases in their productivity.

True, output per worker rose markedly, but that was due primarily to the economy of labor allowed by the notably rapid expansion of the accumulated capital stock on hand, that expansion being fueled in turn by a sharp increase in the share of new capital investment in the GNP. Output relative to inputs of labor and capital together, or "factor productivity" as it has come to be called, grew only modestly. At comparable development stages, expansion of capital and labor inputs, of course, has also been a significant source of output growth in the West, but the increase in factor productivity has often accounted there for as much as one-half or more of the increase in output.

Even non-specialists will wish to be aware of a related terminological convention. According to a Soviet usage often employed in the West, growth stress-

Table 1
Economic Growth in the USSR:
Soviet Official NMP and CIA GNP
(Average annual percentage rates)

	NMP "pro- duced"	NMP "dis- posed of"	GNP
1950-60	10.3		5.7
1960-70	7.1	6.5	5.1
1970-75	5.7	5.1	3.7
1975-80	4.3	3.9	2.7
1980-84		3.2	2.6

ing expansion of factor inputs, such as experienced in the USSR, is extensive in nature. Where factor productivity is relatively consequential, as in the West, growth is referred to as intensive.

The difference in growth mechanism is evidently not immaterial. Generated primarily by advances in technology, factor productivity growth involves outlays for R and D, but the resultant costs of additional output are apt to be not nearly as great as those incurred apart from such growth. In the case of capital, it is understood, costs are to be reckoned in terms of not only the new investment required but consumer abstinence.

Such costs had hardly been a deterrent in Stalin's day, but the dictator died on March 5, 1953. If only from a concern for morale and incentives for an in-

Table 2
USSR Investment Volume and Capital Stock
(Average annual rate of growth in percent)

	Investment volume	Capital stock
1950-60	12.7	9.5
1960-70	6.9	6.0
1970-75	6.9	7.9
1975-80	3.4	6.8
1980-84	3.6	6.3*

*1980-83

creasingly literate and sophisticated labor force, his successors have felt impelled to ameliorate Stalin's proverbially onerous priorities. Initial Soviet affirmations to that effect, it is worth recalling, were greeted in the West with a certain skepticism. Considering what had gone before, that is understandable, but per capita consumption increased by a very respectable average of 3.4 percent yearly during 1950-81.

Consumer benefits nevertheless have tended to dwindle as output growth slowed, but in seeking such benefits Stalin's successors have had progressively to limit further increases in the share of GNP invested. Although they have carefully avoided cutting the investment share, growth of the volume of new investment has declined to nearly that of the slowing GNP; and with that, growth of the stock of capital on hand has also necessarily fallen (Table 2).

Although not often remarked, the declining growth rate of the accumulated capital stock has itself contributed materially to the slowdown in output growth. With investment volume recently increasing at low rates, growth of the capital stock might be expected in future to slow still more: increase of a stock, as the primers teach, responds only with a lag to varying tempos of a flow.

As a cause of slowing output growth, the decline in that of the capital stock is thus compounding the impact of the lately much-publicized adverse demographic trends, and the resulting retardation of growth in the labor force. Labor force expansion, which proceeded at 1.3 to 1.5 percent yearly during the sixties and seventies, is projected to average half those tempos or less during the eighties and nineties. To make matters worse, such increases as are materializing are restricted largely to peripheral areas (Central Asia, Kazakhstan, Transcaucasus). The population there is by all accounts reluctant to migrate to major industrial centers elsewhere.

Paradoxically, output expansion has remained of the costly extensive sort, because factor productivity increases, never very noteworthy, have also declined. Recently, according to careful Western computations, they have been negligible if not actually negative. As a source of productivity increases, limited technological gains have apparently been offset by diminishing returns experienced in energy and other extractive industries.

With deposits approaching exhaustion, costs at older extractive sites have tended to rise markedly. While the Russians have been able to turn to newer sources, these too are frequently costly, if only because of their less favorable location and the resultant transportation and other infrastructure costs. Probably in part because of dubious development policies, the output of oil appears to be in a downtrend, thus confirming tardily the CIA's controversial 1977 forecast. Some three-fifths of the total Soviet oil output now comes from Siberia.

Under programs initiated during the Brezhnev administration, agriculture has for some time been absorbing as much as one-fifth or more of all Soviet investment funds. As the continued large-scale Soviet grain imports might suggest, here too there has been only a limited payoff of late. So much is acknowledged in Soviet discussion.

In brief, for purposes of generating rapid economic advance, the novel extensive growth mechanism that Stalin introduced has apparently lost its prowess, while the Russians seem further than ever from mastering the more conventional intensive growth process familiar in the West.

Will Gorbachev's measures pay off?

To return to Gorbachev, his task of accelerating growth in the present circumstances manifestly cannot be easy. There is the more reason to be skeptical as to what he can accomplish when we consider the measures he is initiating to that end. As Gorbachev himself has made clear, they are mainly intended at long last to make for intensive growth.

Changes, for example, are avowedly being made in planning arrangements to facilitate the introduction of advanced technologies. But these shifts are to be of a "within-system" sort, and often such as have been initiated previously and found difficult to implement or have proven otherwise to have little effect. Among them are: limited reduction of centrally controlled performance indices for the enterprise; expansion of the system of research-production associations initiated more than a decade ago; formation of inter-branch administrative entities, and restricted changes in price fixing. The incredibly bureaucratic system of centralist planning inherited from Stalin, which according to voluminous Western research is peculiarly inhospitable to technological innovation, is evidently to remain substantially intact.

Probably more significant than such organizational shifts is Gorbachev's call for a sharp increase (by 50-100 percent) in the growth rate of machinery output, together with a doubling of asset retirement rates. The resultant speed-up of replacement of obsolescent Soviet technologies should be to the good. But, even on Gorbachev's supposition that replacement investment is twice as productive as that entailing new construction, such shifts probably could do little more than forestall further declines in output growth arising from the falling tempo of increases in the capital stock.

As Gorbachev does not pause to clarify, the envisaged step-up in machinery output growth could very possibly result in an increase, if only a limited one, in the investment share of the GNP. With that, consumption gains could dwindle still more than they have of late. Consumption standards are far above the abysmal



levels that prevailed under Stalin, but Soviet scholars have held that labor incentives and effort are impaired by insufficient supplies of superior goods. Workers reportedly are reluctant to exert themselves to earn extra rubles when there is often little of value to spend them on.

The stress on "exactingness"

In his appearances before the Party, Gorbachev has expatiated more than once on the "human factor" on which the success of his program must depend. "Exactingness" is declaredly now to be the standard of performance for not only ordinary citizens but officials at all levels, and heads are already rolling as a result. Although it has not always been made explicit, insufficient "exactingness" is clearly one of the reasons why, for example, seven all-union economic ministries have acquired new chiefs since Gorbachev came to power. The economy could get something of a lift from such a personnel policy. It possibly was in the process of doing so from a similar one pursued during Y. V. Andropov's brief tenure.

Under Soviet conditions, if "exactingness" is not always achieved, not the least of the reasons is apparently the well-known Russian proclivity to imbibe alcohol excessively and often inopportunistly. Here too Gorbachev is continuing where Andropov left off, but it remains to be seen what will be achieved by his new measures, which include stiffer penalties for inebriation, restrictions on retail and restaurant liquor sales hours, and the like. One predictable, though not exactly helpful result, is unusually lengthy queues at liquor stores.

With agriculture performing so sluggishly, the government has found it expedient in the last years to liberalize somewhat constraints on activities of the tiny but productive farm plots that collective and state farm workers have long been allowed to operate privately. Under a sort of putting-out system, for example, farm households may contract to raise livestock on behalf of collective and state farms. Private enterprise has also received a modest boost recently from other developments, some of a semi-legal nature, such as private group construction teams and itinerant seasonal worker brigades. Before becoming General Secretary, Gorbachev had supervised agriculture generally on behalf of the Party, but had identified himself particularly with the so-called "brigade contract system." Allowing a modicum of decentralization within the collective and state farms, that scheme is already employed on some scale. Gorbachev has also called emphatically for improved management of the vertically integrated agro-industrial complex that is now widely prevalent.

According to the CIA, the USSR is currently devoting as much as 13-14 percent of its GNP to defense. That is an onerous burden, and Gorbachev would no doubt find his task of accelerating economic growth distinctly easier if he could cut such outlays. He has declared again and again his interest in "halting the arms race," and the latest Soviet arms control proposal apparently gives some substance to such avowals. But the Soviet armed forces should find reassuring his further affirmation that "in the face of imperialism's aggressive policy and threats, we must not permit it to gain military superiority over us."

Indeed, that imperative, as Gorbachev makes clear, is a principal reason why economic growth must be accelerated. But, as he is manifestly also aware, the current pedestrian economic performance of the USSR is hardly in conformity with familiar Soviet ideological presuppositions. He is not simply indulging in hyperbole in holding a growth speed-up to be of "paramount political, economic and social importance."

In pursuing such acceleration, however, he may well have to go beyond the cautious program he has so far projected. As *Pravda* editorialists have recently seen fit to remind their readers, public ownership and centralist planning continue to be viewed officially as integral to Marxism-Leninism. Nevertheless, perhaps Gorbachev even so will be induced to turn to some radical planning reform such as many Western observers have long believed necessary. If so, success is probably not as assured as often supposed, but that is a matter best explored if and when the reform materializes.

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SEASONS

GREETINGS !!!!!!!

Gorbachev May Be Unequal to Task

By MARSHALL I. GOLDMAN

Not since Lenin has the Soviet Union had such a politically powerful and adroit leader as Mikhail S. Gorbachev. Even Stalin required several years before he could remove his opponents.

In contrast, Gorbachev purged his chief opponent, Grigori V. Romanov, after only three months and then Nikolai A. Tikhonov, the aging prime minister, in six months. Unlike Nikita S. Khrushchev, who had to share power for a time with Nikolai Bulganin, and Leonid I. Brezhnev, who initially did the same with Alexei N. Kosygin, Gorbachev has been his own man, enunciating both domestic and foreign policy without deferring to notes or subordinates for support.

As powerful as he may be, Gorbachev may nonetheless prove unequal to the task that he has set for himself—the reform of the Soviet economy. It is not that the Soviet economy is on the verge of collapse. The Soviet gross national product continues to increase. But industry's production is wasteful and inefficient, there have been seven poor harvests in a row and, most important, the Soviet civilian economy has been unable to master the new high technology that is associated with computers, computer-aided design and manufacturing, microprocessors, fiber optics and biotechnology. Anti-alcohol and discipline campaigns that were begun by Yuri V. Andropov, Gorbachev's mentor, helped somewhat—but only with the existing, not the new, technologies. Nor is there much to indicate that the gap between Soviet and Western technology is shrinking. In most fields the gap seems to be widening.

Even the military has become concerned. In a revealing interview last year, Gen. Nikolai V. Ogarkov, the former chief of staff, pointedly noted that the Soviet Union had fallen behind in conventional weaponry. What particularly troubled him was that, because of the United States' mastery of the new technology, this country's conventional weaponry had become as destructive as "the ultimate weapon"—nuclear warfare. While this overly candid warning probably contributed to his dismissal, it is a concern that Gorbachev now seems to share.

The careful look at Gorbachev's behavior within the Soviet Union suggests that his determination to reform the economy is important to him—as much as, or more than, the approaching Geneva summit meeting. This is not to downplay the significance of the summit. Yet it almost seems that the summit is Act I of a two-act play. Clearly Gorbachev places great importance on putting a halt to the arms race, if for no other reason than to avoid having to give his generals even more funds and to prevent the United States from embarking on another technological breakthrough that would put the Soviet Union even further behind.

But to Gorbachev, Act II, in many respects the climactic act, is the Communist Party Congress scheduled for late February, 1986. Held every five years, next year's congress is scheduled to approve the new Soviet five-year plan and, more important, to approve the economic and political innovations that Gorbachev feels he must make if he is to modernize the Soviet economy. To whip up support, Gorbachev has emerged from the traditional protection of the Kremlin to visit key production centers all over the country, from the oil and gas fields of Siberia to the virgin farmlands of Kazakhstan. At each stop he expounds at great length, as only Soviet leaders can do, about the country's economic needs and the necessity for hard and more efficient work.

Not since Khrushchev has a Soviet leader spent so much time meeting officials and working outside Moscow. This has been good for Soviet morale, but neither Gorbachev's Ilyushin-hopping nor his political shuffling is likely to bring the revitalization that he seeks. For that he needs a radical revamping of the economy, including the abolition of central planning. Cosmetic reform will not suffice. Central planning may have worked well in the days of smokestack industry, but it is unequipped to deal with high technology, where products have a life cycle of only two to three years.

Gorbachev is no fool. He knows that Soviet bureaucrats are so entrenched, and that the Soviet central planning system has been in place for so long, that structural change will not be warmly received. Thus his ability to reshape the Soviet Union's economy depends in part on developing a dynamic sense of change and accomplishment. Each small victory that he wins will presumably make it easier for him to tackle the ultimate challenge: the Soviet economy.

That explains his visits and his exhortations. It also explains his decision to meet with President Reagan, despite what Soviet officials candidly regard as Reagan's inflexibility and insistence on the Strategic Defense Initiative. Nothing would help Gorbachev more than to return to Moscow having shown that he is a match for Reagan.

But as skilled and powerful as he is, Gorbachev is likely to find that the Soviet economy is more than a match for even the most adroit leader. In some respects, dealing with Reagan may prove the easier of his two challenges.

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